

Message Text

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44

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

H-02 DODE-00 PA-03 USIA-12 PRS-01 EA-11 RSR-01 /167 W

----- 124207

R 071205 Z MAY 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 8595

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

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E. O. 11652: N/ A

TAGS: EFIN, IT

SUBJECT: MOVEMENTS OF SPECULATIVE CAPITAL

REF: STATE 081989

1. SUMMARY. BECAUSE LIRA HAS BEEN RELATIVELY WEAK SINCE MID-1972, CAPITAL CONTROL MEASURES HAVE BEEN AIMED AT AVOIDING CAPITAL OUTFLOWS. DIRECT CONTROLS HAVE BEEN ONLY MODERATELY EFFECTIVE BUT HAVE RECENTLY BEEN SUPPLEMENTED BY LIRA FLOAT IN DUAL MARKET. END SUMMARY.

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2. FOLLOWING ANSWERS ARE KEYED TO QUESTIONS RAISED IN
PARA 3 REFTEL:

(1) THERE ARE NO UNOFFICIAL CAPITAL CONTROLS.
HOWEVER, EUROMARKET BORROWING BY ITALIAN STATE ENTITIES
HAVE BEEN USED TO OFFSET CAPITAL OUTFLOWS WHICH CONTROLS
CANNOT PREVENT. MONETARY AUTHORITIES HAVE PREFERRED
TO KEEP THESE BORROWINGS CONFIDENTIAL BUT HAVE NOT
BEEN VERY SUCCESSFUL IN DOING SO.

(6) STRENGTHENED CONTROLS INCLUDE: (A) SUSPENSION
OF REPATRIATION OF ILLEGALLY EXPORTED ITALIAN BANKNOTES;
(B) REDUCTION FROM THREE MONTHS TO ONE MONTH FOR ADVANCE
IMPORT PAYMENTS AND FROM TWELVE MONTHS TO THREE MONTHS
FOR DELAYED EXPORT RECEIPTS; (C) REDUCTION IN ITALIAN
RESIDENTS' TOURIST ALLOWANCES FROM 1 MILLION LIRE TO
500,000 LIRE PER TRIP; AND (D) REDUCTION IN PERIOD DURING
WHICH FOREIGN CURRENCY MAY BE MAINTAINED IN HOLDING
ACCOUNT FROM SIX MONTHS TO ONE MONTH.

(2), (3) AND (4) FOLLOWING JUNE 1972 SUSPENSION OF
BANKNOTE REPATRIATION, STATISTICS SHOW SHARP DROP IN
THIS FORM OF CAPITAL OUTFLOW. HOWEVER, THERE HAVE BEEN
SOME HIDDEN OFFSETTING LOSSES FROM TOURIST AND EMIGRANT
RECEIPTS. REASON IS THAT SOME ITALIAN BANKNOTES
CONTINUE TO LEAVE ITALY AND ARE PURCHASED ABROAD AT
FAVORABLE EXCHANGE RATE BY FOREIGN TOURISTS OR ITALIAN
WORKERS. STATISTICS THEN SHOW LOWER FOREIGN CURRENCY
RECEIPTS FROM THESE TWO SOURCES THAN WOULD OTHERWISE BE
TRUE. EMBASSY'S ROUGH ESTIMATE FOR LAST HALF OF 1972
SHOWS THAT ADDITIONAL BANKNOTE OUTFLOW OF \$648 MILLION
COULD HAVE OCCURRED (E. E., SAME RATE AS IN FIRST HALF)
IF REPATRIATION OF BANKNOTES HAD NOT BEEN SUSPENDED.
ON OTHER HAND, ROUGH ESTIMATE OF "LOST" TOURIST AND
EMIGRANT RECEIPTS (IF FIRST HALF GROWTH RATES HAD
CONTINUED) WAS \$379 MILLION. THUS, NET REDUCTION IN
CAPITAL OUTFLOW FROM THIS MEASURE MAY HAVE BEEN \$269
MILLION AND NOT \$648 MILLION. IT TOO EARLY TO TELL
WHETHER MEASURES TO LIMIT ADVERSE EFFECTS OF LEADS AND
LAGS WILL BE EFFECTIVE. FROM PAST EXPERIENCE, MEASURES
SHOULD BE REASONABLY EFFECTIVE, PROVIDED NO NEW REASON
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FOR CURRENCY SPECULATION ARISES WHICH MIGHT ENCOURAGE
OVER- INVOICING OF IMPORTS AND UNDER- INVOICING OF
EXPORTS. BANK OF ITALY THINKS THAT REDUCTION IN TOURIST
ALLOWANCE HAS HELPED TO LIMIT BORDER TRAFFIC TOURISM
AS CHANNEL FOR CAPITAL OUTFLOW, ALTHOUGH THIS HARD TO
DOCUMENT. MEASURE REDUCING TIME DURING WHICH FOREIGN
EXCHANGE MAY BE MAINTAINED IN HOLDING ACCOUNT IS

RELATIVELY EASY TO ENFORCE AND, THEREFORE, EFFECTIVE.
WE DO NOT BELIEVE THAT THERE HAS BEEN MUCH TIGHTENING
UP OF EXCHANGE LICENSING OF CERTAIN LEGAL CAPITAL
OUTFLOWS, E. G., PORTFOLIO INVESTMENT, SINCE THIS HAS
NOT BEEN MAJOR CHANNEL FOR CAPITAL OUTFLOWS.

(5) WE ARE NOT AWARE OF ANY CONTROLS NOT BEING
ENFORCED OR QUIETLY BEING EASED.

(7) INDEPENDENT ITALIAN FLOAT USING DUAL MARKET
SYSTEM SUPPLEMENTS DIRECT CONTROLS. FINANCIAL LIRA
MARKET WAS CREATED IN JANUARY 1973 TO RATION CAPITAL
OUTFLOW THROUGH INCREASE IN COST OF FOREIGN EXCHANGE.
BANK OF ITALY TELLS US THEY HAVE NOT INTERVENED IN THIS
MARKET, SO THAT EXCHANGE RATE MOVEMENTS HAVE BALANCED
SUPPLY AND DEMAND. (NOTE THAT MAJOR EUROMARKET
BORROWINGS BY STATE ENTITIES SUCH AS IMI AND ICIPU
HAVE NOT PASSED THROUGH FINANCIAL MARKET SO AS TO
AFFECT EXCHANGE RATE. NET PROCEEDS OF LOANS ARE
TURNED OVER DIRECTLY TO CENTRAL BANK.) DESPITE
RELATIVE SUCCESS OF DUAL MARKET, AUTHORITIES EVIDENTLY
STILL FEEL NEED FOR DIRECT CONTROLS TO LIMIT ILLEGAL
CAPITAL EXPORTS WHICH ATTEMPT TO GO OUTSIDE DUAL
MARKET SYSTEM OR WHICH ABUSE LEGAL CHANNELS.

(8) WE DO NOT FORESEE INTRODUCTION OF NEW CONTROLS
ON CAPITAL OUTFLOWS IN NEXT SIX MONTHS. MONETARY
AUTHORITIES ARE STILL FAIRLY OPTIMISTIC THAT LIRA WILL
STRENGTHEN DURING THIS PERIOD, SO THAT, IF ANYTHING,
CONTROLS MIGHT BE SOMEWHAT RELAXED.

(9) MAJOR CAPITAL OUTFLOWS IN ITALY HAVE TYPICALLY
TAKEN FORM OF BANKNOTE OUTFLOWS AND ADVERSE LEADS AND
LAGS ON TRADE ACCOUNT. BOTH OF THESE TYPES OF OUTFLOWS
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ARE DIFFICULT TO CONTAIN BY USE OF DIRECT CONTROLS,
SO THAT MAIN BURDEN OF ANY NEW SPECULATIVE PRESSURES
WOULD HAVE TO BE BORNE BY MOVEMENT OF FLOATING LIRA
EXCHANGE RATE. DECONTROL 12/31/75 VOLPE

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LONDON

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